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Peru's Burden of Military Expenditures

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IT would, perhaps, be difficult to find a country in South America or elsewhere which, over a period of an entire century, has suffered more deeply from wars and revolutions and the accompanying burden of armaments and war indebtedness than has Peru. This is the year in which Peru celebrates the 100th anniversary of her independence from Spain, and the history of the century that is closing is a long and mournful record of one of the richest countries of South America, dwarfed in its economic, educational and political development by military activities and expenditures.

In this century Peru was engaged in seven different foreign wars and a dozen or more serious internal revolutions or insurrections. She had two score of rulers, most of whom came into office by violence and were deposed in the same way, and not one of whom was a civilian until Manuel Pardo came into office in 1872. Prior to the War of the Pacific (1879-83), her economic progress was negligible except for some railroad construction which had been carried on during the very brief breathing spells between civil and foreign wars.

It was not that the government of Peru nor its people were suffering during this period from poverty, for the country was blessed with rich deposits of guano, a natural fertilizer which at little cost could be gathered from the islands along the coast, and exported and sold in all the markets of the world. During a period of forty years, from 1840 to 1879, Peru had the unusual distinction of running its government practically without recourse to taxation of any kind, for in this time

she exported 12,000,000 tons of guano, and the national treasury received net profits therefrom of about \$400,000,000. This money was largely squandered on current expenditures with nothing to show for it, according to a statement of President Billinghurst in 1913, except twenty warships costing \$5,000,000; a penitentiary costing \$850,000; an exhibition garden and palace, \$3,000,000; and a bridge, \$300,000, making a total of \$9,150,000. She had likewise spent the proceeds of over \$150,000,000 in loans secured chiefly by liens on future profits from sales of guano. By 1873 her finances had reached a state of hopeless bankruptcy, for her budget of expenditures was over two and one-half times her current income.

While in this condition, the disastrous War of the Pacific broke upon her, she and Bolivia joining forces against Chile over a dispute concerning the nitrate beds, then under the sovereignty of Peru. The economic value of these nitrate deposits was just becoming recognized and they promised to be a source of wealth rivaling even guano. The war lasted from 1879 to 1883. Peru was completely vanquished by Chile and her nitrate provinces were taken from her. She found herself in a state of utter bankruptcy, carrying the enormous foreign debt of \$268,000,000 owed to British, French and Dutch bondholders, upon which there had been prolonged default.

Peru was mercifully relieved of this burden by an arrangement with her creditors through the Council of Foreign Bondholders, which eventuated in the organization of the Peruvian

Corporation. The entire foreign debt was cancelled in consideration of the granting to this corporation by the Government of Peru of certain privileges and concessions, among which the most important were:

(1) The cession of all the Peruvian state railroads for a period of sixty-six years. These railroads comprise over 1,800 miles of line, including practically all the important railroads of Peru except the Cerro de Pasco Railroad.

(2) The right to extract 3,000,000 tons of guano, subsequently reduced to 2,000,000 tons.

(3) The right of free navigation of Lake Titicaca and the cession of the government's steamers operating thereon. Modifications of this agreement in 1907 extended the lease of the railroads seventeen years and provided for an annuity payment by the government to the corporation of \$80,000 for a period of thirty years. It is obvious that to free herself of debt, Peru gave up everything she then possessed of immediate economic value.

But if Peru fared badly, the bondholders fared no better. In return for approximately \$180,000,000 par of Peru's bonds, together with arrearages of interest, they received \$37,000,000 of preferred stock and \$45,000,000 of common stock in the new Peruvian Corporation. At the end of twenty years, this stock was worth only \$16,000,000, at market values, or about 9 per cent of the par of the bonds originally surrendered.

Such is the fate of a country and bondholders embarking upon an extended program of financing military expenditures. Neither side has been satisfied with the arrangement that the Peruvian Corporation embodies and it has been the subject of endless differences and even international involvements between Peru and the

governments of Great Britain, France and Holland.

In the thirty years since the War of the Pacific, internal political conditions have been much more stable and the country has had no conflicts with other nations. In consequence and despite the heritage of the past, which had very much impaired her credit and discouraged foreign investment, Peru's economic development has been rapid. True, she has accumulated some \$30,000,000 of new indebtedness, some of which may be ascribed directly, and some indirectly, to naval and military expenditures. Her national revenues have increased considerably. In 1919 she collected over \$29,000,000 from taxes, about \$6,000,000 of which, however, were from war taxes that will probably not continue. A debt service of \$3,300,000 requires only 15½ per cent of her normal revenues; and were it not for the fact that so considerable a portion of her assets is mortgaged to the Peruvian Corporation, and the major portion of her current revenues are pledged, even though they are not all used, to other creditors who have provided the new loans of recent years, the national debt and debt service in relation to her population and national income would be quite small.

ARMAMENTS

The government in the last ten years has been spending about 18 per cent of her entire revenue for naval and military establishments. When we consider that her present debt was created in part for direct military or naval expenditure, and in part as the result of unbalanced budgets and floating debts for which the current military and naval expenditures are as much responsible as any other item of the budget, it is reasonable to say that one-half of her debt service is assign-

able to her armaments account. We have, therefore, a condition in which the country is spending, directly and indirectly, a quarter of its yearly revenues for military and naval purposes. In contrast, only about 6 per cent is spent on education.

But the most confirmed pacifist could hardly describe Peru as "armed to the teeth." With a population of 4,500,000 and an area of almost 700,000 square miles to protect, her standing army on a peace footing is only 4,000 officers and men. Her navy consists of 14 vessels, only a few of which are fighting units, and she has a very long coast line to defend. It is hard, indeed, to see how the government, with the responsibility of protecting the people against foreign aggression and preserving the national honor, could have been expected to do much less in these late years.

THE TACNA-ARICA QUESTION

It must be remembered that Peru has ever present the Tacna-Arica question, which it is felt may any day burst forth from smouldering ashes into the flame of international war. Tacna and Arica are two of the provinces which were taken from Peru by Chile as a result of the War of the Pacific, but under the express condition that their ultimate sovereignty should be decided by a plebescite. The time for holding this plebescite has long since passed, but no agreement can be reached by Peru and Chile for holding it. Irrespective of the merits of the controversy and of the importance or lack of importance of the disputed territory, there is this open sore that provides a good excuse for both nations to arm against each other. Only lately Chile has acquired some new units for her navy from Great Britain. Could it be wondered at if Peru replies

with further additions to her navy, even at great financial sacrifice?

And so it will go on and both countries will spend in the next decade a hundred times more than the disputed provinces could ever be worth to them. But until we have some better way of settling issues between nations, such as this Tacna-Arica question, than by resort to arms, there can be no relief from the intolerable burden of armaments.

Can either country today be satisfied that aggression upon the part of the other will be promptly met by the united opposition of the rest of the world, and hence disarm? And is it not possible that in certain cases the maintenance of the *status quo* simply as a result of the disparity in armaments may work a positive injustice to the weaker nation? The writer would not be so bold as to say, without having studied this controversy, that this is the case in the Tacna-Arica question. But the spectacle of Chile and Peru carrying heavy armaments largely because of a forty-year old controversy over a small piece of territory of little or no economic value to either of them, is a striking illustration of the need of some international agency of some sort to which questions of like nature may, and must be, referred. Decided with justice to both parties, and its decisions backed by the weight of public opinion of the entire world, the strongest of the nations would not dare violate its decisions with impunity.

Perhaps when this is attained, a billion dollars or so passing through a small nation's treasury, as in the case of Peru in the last century, will serve to add more to the country's material and moral progress than a few thousand miles of railroad line leased for a long term to foreign creditors, twenty warships now at the bottom of the sea, a penitentiary, a palace and a bridge.